

**STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF)
THE CITY OF KINGSFORD HEIGHTS,)
INDIANA BY ITS MUNICIPAL WATER) CAUSE NO. 43502-U
UTILITY, FOR APPROVAL OF A NEW)
SET OF RATES AND CHARGES.)**

FILED

NOV 21 2008


**INDIANA UTILITY
REGULATORY COMMISSION**

REPORT OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

NOVEMBER 21, 2008

Respectfully Submitted by .

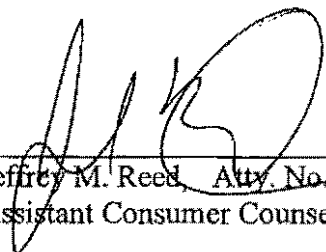


Jeffrey M. Reed
Assistant Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on November 21, 2008.

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REPORT OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
Cause No. 43502-U
KINGSFORD HEIGHTS MUNICIPAL WATER UTILITY

Prepared by: Utility analysts Harold Riceman and Roger Pettijohn

CHARACTERISTICS

The Kingsford Heights Municipal Water Utility ("Kingsford Heights," "KHM" or "Petitioner") operates a water utility providing service to approximately 528 customers in and around the town of Kingsford Heights, LaPorte County, Indiana. The Utility also provides wastewater and electric service not included in this Cause. The Town of Kingsford Heights was an outgrowth of the World War II war effort. The town's utilities, including 396 original residences were initially constructed to serve employees of the nearby Kingsbury ordinance plant. Approximately 40 years ago the FHA financed construction of approximately 150 homes in Kingsford Heights for purchase by low-income families.

PREVIOUS CAUSES

Cause No. 39457 – On May 15, 1992 Kingsford Heights petitioned for approval of an across-the-board increase to its rates and charges equal to approximately 28%. This increase generated total revenues of \$200,572. The Commission issued an order on November 25, 1992 approving annual operating revenues of \$192,224.

Cause No. 38000 - On February 21, 1986, Kingsford Heights petitioned for approval of an across-the-board increase to its rates and charges equal to approximately 62%. This increase produced approximately \$59,000 in additional annual operating revenues and generated

total revenues of \$160,930. The Commission issued an order on May 13, 1987 approving annual operating revenues of \$152,060.

PETITIONER'S ORIGINAL PROPOSED INCREASE

The utility originally requested a 36.30% increase in rates to cover escalating operating and maintenance costs. In reviewing the calculation of Petitioner's originally proposed 36.30% increase, the OUCC determined that Kingsford Heights inadvertently included \$2,231 of forfeited discounts in its \$190,026 of "Revenues at Current Rates Subject to Increase". Removing the forfeited discounts reduced "Revenues at Current Rates Subject to Increase" to \$187,705 and increased the original requested increase to 36.76%. The parties subsequently settled the case and agreed to a 34.44% increase. The test year used was the 12 months ended December 31, 2007 which was adjusted for fixed, known, and measurable changes which have occurred, or are likely to occur, within one year of the test year.

WATER FACILITIES

Source of Supply:

Petitioner utilizes three (3) 16" wells capable of 500 gallons per minute (GPM) each. All of the wells were drilled in 1980 with two wells and the treatment plant capable of being run under standby or auxiliary power. According to Petitioner's IURC Annual Report for 2006 and 2007, an average of approximately 155,000 gallons per day (GPD) was pumped from its wells to distribution but only 77,000 GPD was sold. This amounts to a water loss of over 50% and will be addressed later in this report.

Treatment:

KHM has a packaged or stacked treatment facility consisting of aeration for iron oxidation followed by a detention tank and filters for iron removal. Filtered water then flows to a 400,000 gallon reservoir that serves as a suction well for the two (2) high lift pumps that are housed in a separate building that also contains switch gear, motor starters, metering, and chemical feed such as chlorine for disinfection. One high lift pump can also be operated in an emergency situation with the same generator that powers two (2) wells. The capacity of the treatment plant is on the order of 500,000 GPD.

Distribution and Storage:

KHM has 500,000 gallons of storage capacity - a 100,000 gallon steel elevated tank and a 400,000 gallon concrete ground storage tank, or reservoir, located at the treatment plant. The distribution system consists of approximately 10 miles of 4" to 8" transite or asbestos cement (AC) pipe. Although AC pipe was seldom used for distribution piping, it was used in the 1940's when Kingsford Heights was established as a community to serve as a work force for the ammunition plant at nearby Kingsbury. It is reasonable to assume the Federal Government or Army at the time decided not to use the preferred cast iron or steel pipe since this material was to be conserved specifically for the war effort. AC pipe is good material from the standpoint that it will not react electro-chemically with water. However, it continues to harden over time and becomes increasingly brittle. Consequently, any pipe movement or vibration such as from ground freezing and thawing or water hammer may well crack the pipe especially at the joints. Mr. Tim Lindewald, Water Superintendant and Utilities Manager, states that 90% of KHM's system is AC pipe. This may help explain Petitioner's apparent high water loss.

Also, Petitioner maintains 129 fire hydrants and on the order of twice that number of valves. Its hydrants are readily available for fire fighting purposes at approximately 1,000 GPM and are also useful in main flushing.

MAINTENANCE & OPERATIONS

Standard Operating Practices:

Petitioner meets the recommended engineering standards for meeting system maximum demand with its largest pumping unit, well or high lift pump out of service and has more than adequate storage to meet a one-day demand usage. Storage capacity totals 500,000 gallons whereas daily demand is on the order of 155,000 gallons. Because of its stand-by power, two of Petitioner's three wells (each @ 500 Gallons Per Minute) can deliver 1.4 million GPD to the treatment plant with its largest pumping unit out of service. Petitioner follows recommended practices of flushing hydrants twice a year and turning system valves every year.

Tank Painting:

KHM received \$300,000 of Major Moves Construction Fund money resulting from the sale of an area toll road and has decided to earmark a major portion of this money toward painting its 100,000 gallon elevated tank. Tank painting bids have been let and awarded to low bidder Dave Cole Decorators at a cost of \$220,115. The job specifies a three coat epoxy system applied to bare metal on the tank interior and a four coat epoxy-urethane system applied with a commercial blast for the tank exterior. Fees for professional inspection performed by Dixon Engineering will also be included at an additional cost of

nearly \$16,000. The price for a new tank of the same type and size would likely be about \$390,000.

It was obvious upon visual inspection by the OUCC that the tank has significant paint failure and bleaching on the exterior. Although not known by Mr. Lindewald, it is also likely the tank interior has a grease or wax interior coating. This type of coating is not recognized as a protective metal coating according to AWWA Standards. Assuming proper surface preparation and coating application, a contemporary tank coating should last 20 years. Mr. Lindewald mentioned in conversation that Petitioner has a 20-year guarantee for the tank coating, but one might expect the necessity for spot priming and painting or even a top coat in ten (10) years or so.

KHM originally budgeted \$5,000 per year for tank maintenance. Since no significant tank maintenance other than flushing (perhaps costing about \$2,000 every four years) will be necessary for the next several years, these funds are available. At the September 23, 2008, field hearing, some customers made mention of the prospect of this "saved" money. OUCC and Kingsford Heights have agreed as part of their settlement that this "saved" money will be spent addressing the utility's unaccounted-for water issues as detailed below.

Unaccounted-for Water:

As mentioned earlier, Petitioner's IURC Annual Report data reflects unaccounted-for water of approximately 50%. The problem is likely primarily caused by metering inaccuracy and leaks. Subtracting backwash water and hydrant flushing water (perhaps measured with an inexpensive PICOT gauge) from water pumped to the distribution

system would be a good start, and the parties have agreed that Petitioner will take steps to better track water used for these purposes.

Petitioner's master meter needs to be replaced as soon as possible. It is a type of monometer that registers flow rate when a high lift or distribution pump runs. However, flow is not totalized and there is no means of calibrating the instrument for accuracy. Total flow must be calculated manually by multiplying the pump run time by the pump capacity. For example, if a high lift pump runs four hours (240 minutes) this time is multiplied by 500 gallons per minute representing the pump capacity which then equals 120,000 gallons pumped. This method amounts to no more than an estimate since pump capacity varies greatly over time according to the head pressure on the pump. For example, a pump will deliver several hundred gallons more per minute if an elevated tank is half full, thereby inducing less head pressure on a pump, as compared to the tank being three-quarters full. This method could overestimate production by millions of gallons over the course of a few months. It is fundamental in a water audit, of which water loss is a part, to have accurate finished water or pumped to distribution readings.

A state-of-the-art 6" Mag® Meter (estimated cost \$4,000) is affordable and has the added bonus of being self-calibrating. Since Petitioner will not need the budgeted \$5,000 for tank maintenance expense for several years, the parties have agreed that Petitioner will acquire this or some comparable meter. The parties have also agreed, as part of their settlement that KHM's well meters should be calibrated (estimated cost: a few hundred dollars each) along with the comparatively large meter at the grade school.

Petitioner and OUCC have also agreed as part of the settlement that Petitioner will institute a 15-year meter replacement program of its residential meters. This program would entail the installation and purchase of approximately 30 meters a year at approximately \$60.00 each or \$1,800 per year. Most if not all residential meters are located under the house with a remote readout box attached to an outside wall. This makes meter installation difficult but the alternative (installing meters in an outside pit, complete with appropriate setting material and labor) is cost prohibitive given KHM's pro forma revenue request. Residential meters are much more likely to under-register over time and after a few years of replacing meters Petitioner will be able to determine the effectiveness of its replacement program with regard to increasing revenue and reducing water loss.

Leak repair is also essential. Petitioner repairs leaks as they surface, but not all leaks come to the surface. A leak survey or a partial survey could be provided by the Indiana Rural Water Association without cost. Unfortunately, AC pipe is a very poor conductor of sound (the basis for most leak detection instrumentation), so the Parties have agreed that Petitioner will contact the Association and determine for itself the value of this service.

It would be an extreme financial hardship for KHW to finance a main replacement project at something over \$2 million which would likely not significantly improve water quality or reliability. Given the nature and characteristic of AC pipe in a distribution application, reducing KHM's water loss to 20-30% may be a best case scenario. The

parties have agreed that Petitioner will report its progress and decision-making regarding unaccounted-for water in its IURC Annual Report.

REVENUE REQUIREMENTS

The attached Schedule 1, Page 1, summarizes the revenue requirements as originally presented by Kingsford Heights and the settlement figures agreed to by both parties. The following discussion, along with the attached schedules, explains the differences between Kingsford Heights' originally requested revenue requirements and the parties' settlement. Kingsford Heights proposed a total revenue requirement of \$264,580 for an overall rate increase of 36.76%. The parties have agreed that \$261,060, or an overall rate increase of 34.44%, will be sufficient to fully fund Kingsford Heights' revenue requirements. The basic differences between the original request and the settlement are summarized in the table below:

	<u>Per Applicant</u>	<u>Per OUCC (Settlement)</u>	<u>Settlement More (Less)</u>
Operating Expenses	\$ 180,713	\$ 177,193	\$ (3,520)
Taxes Other than Income	2,444	2,444	-
Depreciation Expense	32,307	32,307	-
Working Capital	-	-	-
Payment in Lieu of Taxes	3,000	3,000	-
Debt Service	53,424	53,424	-
Total Revenue Requirements	<u>271,888</u>	<u>268,368</u>	<u>(3,520)</u>
Less: Interest Income	<u>(7,308)</u>	<u>(7,308)</u>	<u>-</u>
Net Revenue Requirements	<u><u>\$ 264,580</u></u>	<u><u>\$ 261,060</u></u>	<u><u>\$ (3,520)</u></u>

Calculation of Rate Increase:

The rate increase required is calculated by taking the revenue increase required and dividing it by the total revenues subject to increase. Petitioner accepted OUCC's

adjustment that included \$2,321 of test year forfeited discounts (late fees) in revenues subject to increase that Kingsford Heights had excluded. This yields a slightly smaller overall increase. The general rate increase will increase the total late fees charged because the late fees will be based on a percentage of the amount billed and will increase as the underlying rates increase. Therefore, parties recognize that Kingsford Heights will be collecting additional forfeited discount revenue when it implements the rate increase, which has been factored into the rate increase calculation.

Operating Revenues:

The OUCC accepted all of the revenue adjustments proposed by Kingsford Heights and presented on Schedule 3.

Operating and Maintenance Expenses:

The OUCC accepted the following adjustments proposed by Kingsford Heights and presented on Schedule 3:

- Salaries and wages - officers (Adjustment 5-2)
- Chemical expense (Adjustment 5-4)
- Uniform and non-recurring costs (Adjustment 5-5)
- Gross receipts tax (Adjustment 5-8)

The OUCC disagreed with the following adjustments proposed by Kingsford Heights:

- Salaries and wages – employees (Adjustment 5-1)
- Pensions and benefits (Adjustment 5-3)
- Liability insurance (Adjustment 5-7)
- Periodic maintenance, non-recurring
and professional fees (Adjustment 5-6)

The OUCC proposed the following adjustment:

- Miscellaneous Expense (Adjustment 5-9)

As part of the Settlement Agreement in this case, Petitioner has accepted OUCC Adjustments 5-1, 5-3, 5-6, 5-7 and 5-9 as described below.

Adjustment 5-1 - Salaries and Wages – Employees:

Kingsford Heights estimated the expense of a new full-time field employee at \$23,296 per year because the employee had not yet been hired. The OUCC determined that new field employee, Glen Schoof, was hired June 27, 2008 at a rate of \$10.50 per hour or \$21,840 per year (2,080 hours x \$10.50). Schedule 3, Adjustment 5-1, yields a *pro forma* increase of \$23,199 to test year operating expenses, compared to Kingsford Heights's proposed increase of \$24,655.

The OUCC encourages the training of Mr. Schoof with regard to water operations and maintenance to the extent he may be able to obtain a certified operator licensing appropriate for the Kingsford facility. Indiana Code 327 IAC 8-12-1.1 (3) requires that one certified operator be available for each operating shift. We do not believe this is currently the situation for Petitioner in that Mr. Lindewald is the only certified operator for the water facility thereby leaving no one available for decision making and reporting responsibility in his absence or unavailability. Finally, Mr. Lindewald stated that Mr. Schoof will be taking the appropriate Indiana certified operator examination upon the completion of his required two (2) year training period.

Adjustment 5-3 - Pensions and Benefits:

The OUCC determined that Kingsford Heights understated by one-third clerk-treasurer Rosalie Jacobs' health insurance cost and consequently understated its health insurance expense. This amounts to \$2,196 per year ($1/3$ of $\$550 \times 12$). Additionally, the OUCC determined that the utility overstated the cost of plant operator Timothy Lindewald's health insurance. Per Town Salary Ordinance No. 2007-2008 adopted 12/1/4/07, there is a \$550 per month maximum contribution per employee and the utility used \$661 in its calculation. This amounts to \$1,332 per year ($\111×12). Schedule 3, Adjustment 5-3, yields a *pro forma* increase of \$11,111 to test year operating expenses, compared to Kingsford Heights' proposed increase of \$10,362.

Adjustment 5-7 - Liability Insurance:

Per an Insurance Cost Distribution by Department Schedule dated 3/24/08 provided by Kingsford Heights (See OUCC Attachment 1), the OUCC determined liability insurance costs to be \$9,163. The utility used 2006 insurance costs (factored with a 10% increase) of \$13,356 as its estimate of *pro forma* expense. Schedule 3, Adjustment 5-7, yields a *pro forma* increase of \$737 to test year operating expenses, compared to Kingsford Heights' proposed increase of \$4,930.

Adjustment 5-6 - Periodic Maintenance, Non-Recurring and Professional Fees:

Because of the substantial additional work required to restructure Petitioner's rate blocks and associated charges, Umbaugh's original rate case expense was underestimated. As part of their settlement agreement, the parties have agreed to include an additional \$10,000 in rate case fees to be amortized over five years. Schedule 3, Adjustment 5-6,

yields a *pro forma* increase of \$7,559 to test year operating expenses, compared to Kingsford Heights' proposed increase of \$5,559.

Adjustment 5-9 - Miscellaneous Expense:

The parties' settlement also reduces test year operating expenses by \$620.00, removing an amount reimbursed to the utility by employee Tim Lindewald for utility uniforms destroyed in a fire at his home. Schedule 3, Adjustment 5-9, yields a *pro forma* decrease of \$620 to test year operating expenses.

Non-Recurring Charges:

Non-recurring charges are intended to only recover a utility's costs, both internal and external and should not be designed to generate additional income. Kingsford Heights' non-recurring charges (\$225 connection charge, \$15 reconnection charge, \$10 returned check charge) have not been updated in over fifteen years and are significantly understated. The unrecovered excess cost incurred is being borne by all the utility's rate payers through higher water rates. Costs for these non-recurring charges should be borne by those that generated the costs. OUCC recommends that Kingsford Heights apply to the Commission to update its non-recurring charges to reflect its current costs to provide these service(s).

Rate Structure Changes:

Petitioner's current rate structure contains a 0-6,000 gallon minimum bill @ \$23.46 per month. However, about one-half of these minimum bill customers are using less than

3,000 gallons per month. It is highly likely that these ratepayers have been significantly subsidizing Petitioner's other customers for more than a decade, probably longer.

OUCC discussed this issue with some of Petitioner's customers and the IURC technical staff. OUCC performed a preliminary rate analysis and shared that data with Petitioner's representatives. Kingsford Heights and OUCC worked extensively to collaboratively develop a proposed new, simplified, revenue-neutral rate structure. The proposal eliminates unnecessary high-volume rate blocks, reduces or leaves unchanged the per-thousand-gallon charge for every increment above 3,000 gallons and generates (pre-rate case) a 10.49% reduction for customers using less than 3,000 gallons per month. The restructuring does not affect any of the revenue requirements. For a further explanation of the proposed new rate structure, see Petitioner's witness Miller's testimony.

SUMMARY AND RECOMMENDATIONS

The OUCC recommends that the Commission accept the parties' settlement as described throughout this report, attached schedules and in Mr. Miller's settlement testimony. OUCC recommends that the Commission issue an order reflecting the terms and conditions of this agreement

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Comparison of Petitioner's and OUCC's
Revenue Requirements

	Per Petitioner	Per OUCC (Settlement)	Sch Ref	Settlement More (Less)
Operating Expenses	\$ 180,713	\$ 177,193	3	\$ (3,520)
Taxes other than Income	2,444	2,444	3	-
Depreciation Expense	32,307	32,307		-
Working Capital	-	-	6	-
Payment in Lieu of Taxes	3,000	3,000	8	-
Debt Service	53,424	53,424	7	-
Total Revenue Requirements	271,888	268,368		(3,520)
Less: Interest Income	(7,308)	(7,308)	2	-
Net Revenue Requirements	264,580	261,060		(3,520)
Less: Revenues at current rates subject to increase	(187,705)	(190,026)	4	(2,321)
Other revenues at current rates	(8,726)	(6,405)	4	2,321
Net Revenue Increase Required	68,149	64,629		(3,520)
Additional Utility Receipts Tax	846	807		(39)
Recommended Increase	<u>\$ 68,995</u>	<u>\$ 65,436</u>		<u>\$ (3,559)</u>
Recommended Percentage Increase	<u>36.76%</u>	<u>34.44%</u>		<u>-2.32%</u>

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>Per Applicant</u>	<u>Per OUCC (Settlement)</u>	<u>Settlement More (Less)</u>
Operating Revenues			
Residential Sales	330	330	-
Commercial Sales	-	-	-
Public Fire Protection	-	-	-
Miscellaneous Service Revenues	(690)	(690)	-
Total Operating Revenues	<u>(360)</u>	<u>(360)</u>	<u>-</u>
O&M Expense			
Salaries - Employees	24,655	23,199	(1,456)
Salaries - Officers	597	597	-
Pension and Benefits	10,362	11,111	749
Chemicals	472	472	-
Uniform Clean & Non-Recurring	(4,680)	(4,680)	-
Periodic Maintenance	5,559	7,559	2,000
Insurance	4,930	737	(4,193)
Miscellaneous		(620)	(620)
Amortization Expense			
Taxes Other than Income	(6)	(6)	-
Total Operating Expenses	<u>41,889</u>	<u>38,369</u>	<u>(3,520)</u>
Net Operating Income	<u>\$ (42,249)</u>	<u>\$ (38,729)</u>	<u>\$ 3,520</u>

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

COMPARATIVE INCOME STATEMENT
Twelve Months Ended December 31

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues			
Residential Sales	153,175	150,308	\$ 151,040
Commercial Sales	8,908	9,193	8,486
Governmental Sales	3,968	3,463	2,919
Public Fire Protection	20,993	20,993	21,324
Private Fire Protection	331	331	
Forfeited Discounts	2,321	2,394	2,175
Miscellaneous Service Revenues	7,095	8,067	7,081
Total Operating Revenues	<u>196,791</u>	<u>194,749</u>	<u>193,025</u>
Operating Expenses			
Salaries and Wages - Employees	38,114	35,768	34,297
Salaries and Wages - Officer and Directors	15,561	15,144	14,939
Employee Pension and Benefits	13,753	13,012	13,184
Purchase Power	10,557	10,204	10,197
Chemicals	1,493	2,672	1,731
Materials and Supplies	18,627	16,473	18,630
Contractual Services	23,430	22,667	13,787
Rents	588	603	398
Transportation Expense	2,350	2,061	1,152
Insurance	8,426	12,142	11,378
Bad Debts Expense			
Miscellaneous Expense	5,919	6,067	5,632
Total O&M Expense	<u>138,818</u>	<u>136,813</u>	<u>125,325</u>
Depreciation Expense			
Amortization Expense			
Taxes Other than Income			
Utility Receipts Tax	2,450	2,425	2,260
Payment in Lieu of Taxes	3,000	3,000	3,000
Payroll Tax			
Total Operating Expenses	<u>144,268</u>	<u>142,238</u>	<u>125,325</u>
Net Operating Income	52,523	52,511	67,700
Other Income (Expense)			
Interest Income	7,308	6,019	3,918
Gain (Loss) on Sale of Assets			
Other Income			
Interest Expense	24,713	26,110	27,440
Total Other Income (Expense)	<u>(17,405)</u>	<u>(18,802)</u>	<u>(20,132)</u>
Net Income	<u>\$ 35,118</u>	<u>\$ 33,709</u>	<u>\$ 47,568</u>

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Pro-forma Net Operating Income Statement

	Year Ended 12/31/2007	Adjustments	Sch Ref	<i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	<i>Pro-Forma</i> Proposed Rates
Operating Revenues							
Residential Sales	153,175	330	4-1	153,505	52,860	1	206,365
Commercial Sales	8,908			8,908	3,067	1	11,975
Public Authorities Sales	3,968			3,968	1,366	1	5,334
Public Fire Protection	20,993			20,993	7,229	1	28,222
Private Fire Protection	331			331	114	1	445
Forfeited Discounts	2,321			2,321	799		3,120
Miscellaneous Service Revenues	7,095	(690)	4-2	6,405			6,405
Total Operating Revenues	196,791	(360)		196,431	65,436		261,866
O&M Expense	138,818			177,193			177,193
Salaries - Officers		23,199	5-1				
Salaries - Employees		597	5-2				
Pension and Benefits		11,111	5-3				
Chemicals		472	5-4				
Uniform Clean & Non-Recurring		(4,680)	5-5				
Periodic Maintenance		7,559	5-6				
Insurance		737	5-7				
Miscellaneous		(620)	5-9				
Utility Receipts Tax	2,450	(6)	5-8	2,444	807		3,251
Payment in Lieu of Taxes	3,000			3,000			3,000
Total Operating Expenses	144,268	38,369		182,637	807		183,444
Net Operating Income	\$ 52,523	\$ (38,729)		\$ 13,794	\$ 64,629		\$ 78,422

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Revenue Adjustments

(1)

To adjust water sales based on current number of public and private hydrants.

Current number of public hydrants	129	
Current number of private hydrants	<u>2</u>	
Total	131	
Times: Current hydrant charge	<u>\$ 165.30</u>	
Adjusted hydrant rental receipts		\$ 21,654
Less: Test year expense		<u>21,324</u>
Adjustment Increase (Decrease)		<u>\$ 330</u>

(2)

To adjust other operating receipts to recognize reimbursements and scrap sales as non-operating receipts.

Reimbursement receipts included in test year other operating receipts	\$ (670)	
Scrap sales included in test year other operating receipts	<u>(20)</u>	
Adjustment Increase (Decrease)		<u>\$ (690)</u>

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Expense Adjustments

(1)

Payroll Expense - Employees

To adjust operating expenses to reflect an increase in payroll expense for employees.

	<u>Test Yr.</u>	<u>O.T. Hrs</u>	<u>Pro</u>	<u>Pro Forma</u>	<u>P F</u>			<u>Total</u>
			<u>Hourly</u>	<u>O.T. Rate</u>	<u>P F Reg Pay</u>	<u>P F O.T. Pay</u>	<u>Personal</u>	
	<u>Hrs</u>		<u>rate</u>				<u>Absence</u>	
Plant Operator	2080	71.3	\$ 17.86	\$ 26.79	\$ 37,149	\$ 1,910	\$ 414	\$ 39,473
Field Employee	2080		10.50		21,840			21,840
Totals					58,989	1,910	414	61,313
Less: Test year payroll								38,114
								<u>\$ 23,199</u>

(2)

Payroll Expense - Officers and Directors

To adjust operating expenses to reflect an increase in payroll expense for officers and directors.

	<u>Test Yr.</u>	<u>O.T. Hrs</u>	<u>Pro</u>	<u>Pro Forma</u>	<u>P F</u>			<u>Total P F</u>
			<u>Hourly</u>	<u>O.T. Rate</u>	<u>P F Reg Pay</u>	<u>P F O.T. Pay</u>	<u>Personal</u>	
	<u>Hrs</u>		<u>rate</u>				<u>Absence</u>	<u>Pay</u>
Clerk-Treasurer	2,080		\$ 13.40		\$ 27,872		\$ 622	\$ 28,494
Office Asst	1258.30		9.80		12,331			12,331
Council President								2,200
Council Member								2,000
Council Member								2,000
Council Member								2,000
Council Member								2,000
					\$ 40,203		\$ 622	\$ 51,025

	<u>Total Pro</u>		<u>Per Cent</u>	<u>Total</u>	
	<u>Forma Pay</u>	<u>Expense</u>			
Clerk-Treasurer	\$ 28,494	33.33%		\$ 9,497	
Office Asst	12,331	33.33%		4,110	
Council President	2,200	25%		550	
Council Member	2,000	25%		500	
Council Member	2,000	25%		500	
Council Member	2,000	25%		500	
Council Member	2,000	25%		500	
Total	\$ 51,025			\$ 16,157	

Less: Test year 15,560

Adjustment Increase (Decrease) \$ 597

**Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U**

Expense Adjustments

(3)

Pensions and Benefits

To adjust operating expenses to reflect increase in benefits.

Pro forma salaries and wages - employees	\$	61,313	
Pro forma salaries and wages - officers		16,158	
Total		<u>77,471</u>	
Times: FICA/Medicare rate		7.65%	
Total pro forma payroll tax	\$		5,927

Pro forma salaries and wages subject to PERF	\$	70,810	
Times: 2008 PERF rate		5%	
Pro forma PERF			3,541

Current monthly health insurance premium allowance:			
Lindewald		550	
Shoof (new employee 2008)		550	
Jacobs (1/3 water share x \$550)		<u>183</u>	
Pro forma monthly		1,283	
Times: 12 months		<u>12</u>	

Pro forma employee pensions and benefits		15,396	
Less: Test year expense		<u>24,864</u>	
			<u>13,753</u>

Adjustment Increase (Decrease)	\$	<u>11,111</u>
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(4)

Chemical Expense

To adjust operating expenses to reflect a three year average of chemical costs.

Chemical costs:		
2005	\$	1,731
2006		2,672
2007		<u>1,493</u>
Subtotal		5,896
Divide by: 3 years		<u>3</u>
Average annual cost		1,965
Less: Test year		<u>1,493</u>

Adjustment Increase (Decrease)	\$	<u>472</u>
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Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Expense Adjustments

(5)

Uniform Cleaning Costs and Non-Recurring Costs

To adjust operating expenses for increases in uniform cleaning costs and non-recurring items.

Current Aramark rates per cleaning (every 3 weeks)	\$	44	
Times: 17 cleanings per year		<u>17</u>	
Pro forma uniform cleaning		740	
Less: Test year cleaning		<u>707</u>	
Increase in uniform cleaning costs	\$		33
Non-recurring costs:			
Midwest meter 5/31/07 - 1 meter purchased			(102)
Midwest meter 9/25/07 - 18 meters purchased			(1,365)
E.J. Prescott 12/27/07 - valves and related parts			<u>(3,246)</u>
Adjustment Increase (Decrease)	\$		<u>(4,680)</u>

(6)

Periodic Maintenance, Non-Recurring Costs, and Professional Fees

To adjust operating expenses for periodic maintenance, non-recurring costs and professional fees.

Periodic Maintenance:

Estimated cost of repainting water tower	\$	75,000	
Amortize over 15 years		<u>15</u>	
Annual cost to repaint tower	\$		5,000
Well motor replace (\$4,000 each x 3 wells/10 years)			1,200
Well house roofing (\$800/15 years)			53
Well shaft repair (\$2,750 each x 3 wells/5 years)			1,650
Clearwell inspection (\$3,500/5 years)			700
Valve replacement (\$3,246 each/3 years)			1,082
Annual chemical well cleaning (1 of 3 wells cleaned each year)			<u>6,785</u>
Total periodic maintenance	\$		16,470

Non-recurring repair costs incurred in 2007:

Peerless Midwest 2/13/07-motor replace well 3A	(3,945)	
Service One 3/13/07 solenoid replace-lightning strike	(1,091)	
Smeaton Bros. Roofing 3/27/07-well house roofing	(800)	
Peerless Midwest 8/28/07-well 2A shaft repair	(2,743)	
Service One 8/28/07-water towers repair	(2,050)	
Liquivision Tech 10/9/07-inspect clearwell	<u>(3,450)</u>	
Total non-recurring repairs		(14,079)

Audit fees 2003-2005 paid in 2006	503	
Amortize over 3 years	<u>3</u>	
Pro forma annual fees		168

Umbaugh rate case fees	20,000	
IURC rate case fees	<u>5,000</u>	
	25,000	
Amortize over 5 years	<u>5</u>	
Pro forma annual fees		5,000

Adjustment Increase (Decrease) \$ 7,559

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Expense Adjustments

(7)

Insurance Expense

To adjust operating expenses to reflect the current cost of insurance.

2008 insurance costs:		
Auto	\$	706
Workmens comp		1,274
Property		5,284
General liability		1,748
Bonding		31
Surety		120
Total		<u>9,163</u>
Less: Test year		<u>8,426</u>
Adjustment Increase (Decrease)	\$	<u>737</u>

(8)

Gross Receipts Tax

To adjust operating expenses to reflect the pro forma level of tax at present rates.

Pro forma operating receipts at present rates	\$	196,431	
Less: Pro forma public hydrant rental at present rates		21,324	
Less: exemption		<u>500</u>	
Pro forma taxable receipts at present rates		174,607	
Times: tax rate		<u>1.40%</u>	
			2,444
Less: Test year expense			<u>2,450</u>
Adjustment Increase (Decrease)	\$		<u>(6)</u>

(9)

Miscellaneous Expense

To reduce test year uniform expense for amount that was reimbursed by employee's insurance due to employee loss in fire at his home.

Adjustment Increase (Decrease)	\$	(620)
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Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Working Capital

Operation & Maintenance Expense	\$ 175,193
Less: Purchased Water	-
Purchased Power	(10,557)
Rate Case Expense Amortization	
	<hr/>
Adjusted Operation & Maintenance Expense	164,636
Times: 45 Day Factor	0.125
	<hr/>
Working Capital Revenue Requirement	20,579
Less: Cash on Hand	47,579
	<hr/>
Net Working Capital Revenue Requirement	(27,000)
Divide by: Amortization Period (Years)	3
	<hr/>
Annual Working Capital Revenue Requirement	\$ -
	<hr/>

Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U

Debt Service

To reflect the average amount of debt service required over a five year period.

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
\$808,000 12/10/79	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 267,120</u>
	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 53,424</u>	<u>\$ 267,120</u>
Divide by 5 years						<u>5</u>
Average Annual Debt Service						<u>\$ 53,424</u>

**Kingsford Heights Municipal Water
CAUSE NUMBER 43502-U**

Calculation of PILT

To adjust test year expense to provide for payments to the Town as compensation for property taxes which would have been owed had the utility been privately-owned.

Utility Plant in Service at December 31, 2006	<u>\$ 1,615,336</u>
Net Assessed Valuation: Divide plant factor by 3	<u>\$ 538,445</u>
Tax Rate: Use municipalities corporate tax rate which can be obtained from the County auditor's Office	<u>\$ 0.007028</u>
Effective Rate: Reduce corporate tax rate by 20%	<u>\$ 0.005622</u>
Payment in Lieu of Taxes: Effective rate times Net Assessed Value	<u><u>\$ 3,027</u></u>

3/24/08

Blake Insurance

Insurance Cost Distribution
by Dept

Kingsford Heights Municipal
Water Utility
Cause No. 43502-U
OUCC Attachment 1

		1	2	3	4	5	6
		Gen-TC	Gen-TM	MVH	Electric	Water	Sewage
1	Inv #957						
2	Auto Insur	42.00	728.50	772.00	1,993.00	353.00	469.50
3	✓ \$4,358.00						
4	Semi-Annual Premium						
5							
6							
7	Inv #958						
8	W/C Insur	265.00	2,989.40	373.40	797.40	1,274.40	1,053.40
9	✓ \$6,753.00						
10	Annual Premium						
11							
12							
13	Inv. #959						
14	Inland Marine	1,225.00	800	95.00	531.00	2,642.00	2,099.00
15	✓ \$ Prop Insur						
16	\$6,600.00						
17	Semi-Annual Premium						
18							
19							
20	Inv #960						
21	✓ Gen Liab Insur	1,857.00	740.00	406.20	1,463.40	874.00	401.40
22	\$5,742.00						
23	Semi-Annual Premium						
24							
25							
26		3,389.00	4,465.90	1,646.60	4,784.80	5,143.40	4,023.30
27							
28							
29							
30	Total =						
31	\$23,453.00						
32							
33							
34							
35							
36							
37							
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40							

